

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 9 December 2022

Section 1

General comments

Candidates have adapted well to online examinations and the e-Examination platform ("Cirrus"). The examination format remained broadly similar; a restricted open-book format with an Appendix containing information relating to tax rates, rebates, personal reliefs, and allowances was provided. In addition, Candidates were allowed to bring in one (1) A4-sized double-sided cheat sheet and a blank scratch paper to the examination.

The following were noted for the current cohort:

- Most Candidates attempted all four (4) questions, with a handful not turning in answers to some of the computation questions. Candidates' performance on computational questions like 1(a), 2(a), and GST were mainly competent. However, answers also showed gaps in Candidates' basic knowledge and understanding of those taxes.
- Performance for the qualitative questions (Questions 1(b), 2(b), 3(b), 4(a) & (c)) was poorly attempted, evidently showing the Candidates' limited knowledge and understanding of the topics tested. This is especially the case for the topic on the utilisation of loss items (Question 4). Apart from stating the tax rules and conditions, it was observed that there was a lack of depth and completeness in the answers given. These qualitative type questions seek to test Candidates' ability to apply the relevant tax rules and concepts to the case scenario posed. Candidates were expected to explain how the rules or conditions were met or not. Simply regurgitating the conditions and rules in their answers is not sufficient.
- Many Candidates have incorporated workings in their answers, making it easier for markers to award marks for the correct application despite their careless computational or transposition errors.

Candidates are reminded to prepare well for the examination through reading, comprehending, and applying the relevant sections from i) the Income Tax Act and associated regulations applicable to the TXF syllabus, ii) the Goods and Services Tax Act and related regulations, and iii) the Inland Revenue Authority of Singapore (IRAS) e-Tax guides.

There is much tax-related information in the public domain (for example, the IRAS website). It can be overwhelming to sieve through all the information available, especially when taxation is not part of the daily work routine. Attending tax courses

will help alleviate some of the stress of understanding this information and bridge any gaps in your tax knowledge. If the self-study route is taken, please ensure that your tax knowledge is up to date by checking to IRAS website.

Candidates must also put in enough time and effort to reinforce and clarify their understanding. Please avoid rote learning as much as possible. Before cross-checking the suggested solutions, past-year examination questions should preferably be attempted independently. This is especially important for Candidates who are switching from a non-accounting background.

Candidates are reminded to seek to learn and understand all areas of taxation covered in the syllabus. The examination tests Candidates' understanding and ability to **apply** their tax knowledge. In our bid to be good tax preparers, professional accountants, consultants, or key business decision-makers, a solid foundation and clear understanding of the rules will help us avoid costly mistakes or make inferior decisions. We should strive to understand the principles of what we are doing instead of merely carrying out our tasks mechanically and by rote.

Candidates are strongly encouraged to explore the IRAS website and make good use of the resources available. For instance, Candidates can improve their knowledge by undertaking the free online courses offered by IRAS at <https://elearn.iras.gov.sg/iraslearning/content/iras/startpage/index.aspx#>.

Section 2

Analysis of individual questions

Question 1

Part (a)

Almost all Candidates could prepare the computation in the correct format to arrive at adjusted trade profit. However, many Candidates continue to treat Section 14N (previously known as Section 14Q) deductions on renovations as part of capital allowances claim. Deductions for non-structural renovation and refurbishment expenses are allowed under Section 14N, even though such expenses are capital in nature. And the special deduction goes towards determining the adjusted trade profit, not net trade taxable income.

As before, the tax computation question tested Candidates' understanding of tax principles and rules relating to the taxation of income from various sources (trade vs non-trade sources) and deductibility of expenses (in general and against the respective income source), including special deductions and capital allowances claims.

Although most Candidates could generally determine the taxability of the various receipts and deductibility of most expenses given in the question, many faltered on the following adjustments:

Receipts

- The interest charged on late settlement of customers' accounts arose from trade accounts, and such charges are incidental to the business of selling on credit. This is, thus, a trade-related income, and no adjustment is required since it is also taxable.

Expenses

- The repayment of the excess payout under the Job Support Scheme ("JSS") is not deductible as the payout was not subjected to tax when the company received it and charged it to the P & L a/c previously.
- Computational errors in the medical expense adjustment were observed as many Candidates did not apply the correct rate of the claim (2% instead of 1%). The provision of their workings helped Markers to award some marks for correct application.
- The expenses incurred on lodging an objection against the Notice of Assessment is deductible under Section 14V (previously Section 14X) as this is a compliance expense incurred in relation to a benefit provided to an employee.
- The travel and accommodation expense is deductible as it is incurred with the intent of generating sales through participating in the trade fair. No tax adjustment is required. However, the expense qualifies for double deduction in relation to expenses attributable to 2 employees; this is granted under Section 14B. Many failed to claim the double deduction.
- The interest incurred on the loan used to acquire the motor car is not deductible as it is prohibited under Section 15. A number of Candidates did not make the adjustment.

Special deductions

- There was only one special deduction to be claimed under Section 14N in the current paper. The amount incurred in YA 2021 is to be claimed on a normal basis, i.e., over 3 years (as stated in Note 1a) while the amount incurred in YA 2022 is to be claimed on the accelerated basis of 1 year. A number of Candidates did not follow the instructions given.
- Of the non-structural renovation works given in the question, the costs relating to the commercial property and construction and installation of the raised platform are to be excluded. The costs related to the former are non-business related and therefore do not qualify for the special deduction. The platform was constructed to enable the installation of the computer equipment. The structural costs were incurred to enable the equipment to be put to use for the business. The cost of the raised platform is to be treated as part of the computer equipment and will qualify for accelerated allowances at 100% write-off. Not many Candidates seem to be aware of this.

- Many Candidates continue to treat Section 14N deduction as part of capital allowances; this is incorrect.

Capital allowances

- Capital allowances would have been claimed as the computers donated were used in the business previously. Accordingly, when the qualifying plant and machinery is no longer used for the business, balancing adjustment must be made using the market value as a proxy where sales proceeds are unavailable. The balancing adjustment is to ascertain the allowances to be clawed back, if any or left to be claimed upon the termination of use for the business. The balancing charge of \$40,000 on the donated computers was omitted in many answers.
- As the computer equipment purchased in YA 2022 was acquired under an instalment payment scheme, many Candidates could not work out the number of instalments made in the basis period for YA 2022. In addition, some of the Candidates did not seem aware that computers qualify for accelerated allowance claim at the rate of 100%.
- As pointed out above, many Candidates failed to claim capital allowances at the rate of 100% on the computer platform.

Non-trade income

- Many Candidates did not bring the compensation from early termination to tax. This is compensation for loss of rental income for the landlord as a result of the premature lease termination. Therefore, it should be treated as revenue in nature and taxable together with the rental income.
- While many Candidates could identify that legal fees and interest expenses relating to the lease of rental property were non-trade related expenses and thus removed (i.e. added back to net profit) to arrive at adjusted trade profit, many Candidates also failed to claim deduction of the same expenses from the gross taxable rental receipts of rental income and compensation from early termination.

Chargeable income exempted from tax

- Many Candidates failed to note that the company should claim exempt income under the full tax exemption scheme.

Part (b)

This question part was poorly attempted. Candidates failed to understand that the potential shareholder change would impact the company's ability to claim exempt income under the full tax exemption scheme in Year of Assessment 2023, the last of the qualifying 3 years. As a result, many Candidates scored zero for this question.

Question 2

Question 2 is a 2-part question centred on a Singaporean female (Sasha Thomas) who derived both trade income from her consulting business and part-time employment income.

Part (a) required Candidates to work out the income tax liability of the individual for YA 2022. Apart from determining taxable income from the business source, many candidates prepared the computation competently. The following errors were noted in their answers:

Taxable business income

- Many Candidates did not seem to know how to work out the taxable business profits of a self-employed individual. It is like any corporate tax computation except that the business owner is not to be treated like an employee. Although the business owner may receive remuneration and benefits like any other staff, such remuneration is to be assessed on the business owner as part of taxable income from the trade/business source. Accordingly, payments like salary and medical benefits provided to the sole trader will be treated like personal drawings and not allowed for tax deduction. Many Candidates did not make the adjustment.
- The motor car running expenses of \$9,800 were included in the net profit of the business. The actual cost incurred is not deductible as prohibited under Section 15. Many Candidates used the prescribed formula for determining the taxable benefit arising from provision of cars to employees to determine the amount to be removed from net profit. Just because the purchase price and the PARF rebate are given does not mean the information has to be used.
- Generally, courses and seminars attended by business owners are not allowed for tax deduction and instead, the business owners are allowed deduction via course fee relief, where applicable. In this instance, only the seminars and webinars related to the business will qualify for course fee relief.
- The cost of the new printer and desktop computer was charged off to the net profit. Since the costs were capital in nature, they were not tax deductible. Deduction will be claimed via capital allowances at the rate of 100% instead. Many Candidates omitted to make the necessary adjustment and claim capital allowances instead.
- As the old computer and printer were no longer used for business purposes, balancing adjustment will need to be made using the market value (\$300) as a proxy for sales proceeds, which is not available, to ascertain the allowances to be clawed back, if any or left to be claimed.

Taxable employment income

- This should only comprise employment income from Sasha's part-time teaching; her salary and medical insurance benefit were to be assessed as part of her business sourced income.
- Many Candidates omitted to claim deduction of the cost of the laptop as this is permissible under Section 14(1)(c) – renewal of an implement, etc, which does not qualify for capital allowances and which is employed in the acquisition of income.
- The taxi fares for commuting to the location where lessons were conducted is not allowed for deduction as it is viewed as a private expense.
- It is not clear why some Candidates brought to tax Sasha's CPF contribution. This is to be claimed as part of personal relief deduction.

Net rental income

- Only the net rental from her Singapore properties will be chargeable to tax in Singapore being sourced in Singapore. As the deficit from her Australian property is foreign sourced, it should not be taken into consideration in the determination of her net rental income. Many Candidates deducted the foreign sourced deficit from her Singapore rental income.

Personal relief

The personal reliefs deductions were largely claimed correctly except for the following:

- A few Candidates did not claim Handicapped Child Relief on the second child who is certified blind.
- CPF relief is to be considered on her salary from her part-time teaching as well as her cash award of \$500. While most of the Candidates did claim CPF relief on the salary, many Candidates omitted to consider the cash award which should be treated as additional wages for CPF purposes.
- Grandparent Caregiver Relief is now available even where the qualifying child is older than 12 years provided the child is unmarried and handicapped. Many Candidates did not claim the relief.
- Candidates omitted the claim for NS Parent Relief; her son has completed his National Service commitment.

Part (b) required Candidates to determine the withholding tax implications with respect to the software licence fees paid by Sasha's business. This question was either not attempted at all or poorly answered due to their poor understanding of the topic. A number of Candidates stated that withholding tax was applicable to the

software payment as the payment was borne by a Singapore tax resident business. It appears that these Candidates were unaware of the rights-based approach to determining the withholding tax implications with regards to software payments.

Question 3

This question comprises two parts. The GST analysis of transactions given in **part (a)** was generally well attempted. Most Candidates could answer in the new format required except for some who gave confusing answers. To be clear,

- The three columns under “Value of Supply” were meant to capture values relating to sales or income received by the GST registered trader. Thus, where the output tax is \$0, there should be a value of supply under columns marked “ZR” or “EX” or insert “OS/NS” under the column marked “Others”.
- The “Value of Taxable Purchases” is meant to capture the value of supply in respect of purchases made where the input GST is claimable. Where the input GST is not claimable, you need to explain why no input tax claim by denoting under the column marked “Others” as follows:
 - “EX” for purchases exempted from GST e.g., transaction (ix)
 - “EXS” for purchases where the input tax credit is not allowed as the purchase was made to generate sales exempted from GST e.g., transaction (vii)
 - “BL” for blocked input tax claim
 - “NS” where there is no supply in respect of the payment made
 - “OS” where the purchase is out of scope

Further, many Candidates did not seem to be able comprehend the information given in the question resulting in loss of marks. The following errors were noted:

- It is stated clearly that online sales made to Singapore customers have GST absorbed. Thus, the sales value given of \$580,000 will have to be re-grossed to determine the GST value embedded therein.
- Goods imported into Singapore will have GST chargeable at the standard rate of 7% (8% with effect from 1 January 2023) even though the goods were purchased from overseas suppliers who are not GST registered in Singapore. The tax is collected via Customs and Excise Department before clearance of goods. The value of goods subject to GST comprise the cost of the goods imported as well as any insurance, freight charges and customs duties incurred by the importer. Many answers did not give the correct value of supply in respect of the goods imported into Singapore from Australia.
- It is clear that many Candidates were either unaware that lease of residential property is an exempt supply or they were unaware that the value of the exempt supply is based on the annual value of the residential property. In this case, the annual value of the property related to the quarter is \$16,500 ($\$66,000/12 \times 3$ months). Since the actual rental charged is \$15,000 and within the proxy exempt

value, the entire rental charged will be the value of the exempt supply and thus GST is not chargeable.

- It follows that sales of residential property are also exempted from GST and thus, there is no GST chargeable on the deposit received from the sale of the apartment. Many Candidates treated it as a standard rated supply.
- It is stated that the actual cash received from the sale of scrap packing materials is \$2,700. Since the sales is made by a GST registered company, it would follow that the cash received would be inclusive of GST. Many Candidates did not seem to know how to interpret the information given.
- The legal and estate agent's fees of \$180,000 was spent to enable the company to sell its residential property which will be an exempt supply. Since the expenses were incurred to generate a non-taxable supply, the input tax on the expenses incurred of \$180,000 will not be allowed for input tax credit. The reason for no input tax credit should be denoted as "EXS" – incurred in the making of exempt supply.
- Many Candidates were unaware of the reverse charge requirements concerning services imported into Singapore (transaction viii).
- There is no input GST incurred on the interest expense paid to OCBC Bank as the expense is an exempt supply. The reason for no input tax credit should be denoted as "EX" – exempt supply purchase.
- The gifts purchased requires analysis of the GST implications on both the input tax credit claim and the output tax requirements on the deemed supply since the gift of goods were made during the quarter. On the input tax claim, the input tax credit is allowed on both gifts as the close nexus test is met. However, on the output tax side, only the gift where the cost exceeded \$200 should be considered.
- The amount owed by trade debtors of \$13,910 should include GST. However, many Candidates did not seem to be aware of this. Thus, the bad debt relief should be claimed on the value of supply of \$13,000 and claimed under input tax credit.

Candidates' answers on **part (b)** were broadly acceptable, although a few of the Candidates scored no marks for this part.

Question 4

The question on the utilisation of unabsorbed loss items was broken up into three parts. This was the worst performing question as many Candidates failed on this question and scored poorly. It largely stems from Candidates' inability to demonstrate the application of the rules in their answers.

Most Candidates could address in **part (a)** if group relief can be applied or not. While most Candidates could list the conditions for group relief, many Candidates did not explain how those conditions were met especially for the 75% shareholdings requirements. They failed to mention the shareholdings of the respective entities and how they formed a group for group relief purposes. Many Candidates also did not point out that the transfer to one of the qualifying companies requires pro-ration since the condition to qualify as members for the same group was only achieved during part of the basis period continuing on to the financial year end.

Part (b) required computation of the net chargeable income of the 4 Singapore companies with the following errors noted:

- Many Candidates did not know the order of claim. Capital allowances should be claimed against adjusted profits first, followed by unabsorbed losses brought forward and group relief transfers.
- The capital allowances claimed were to be deducted fully from the adjusted profit. For HB, some Candidates claimed the capital allowances partially, leaving enough profits to fully deduct unabsorbed donations brought forward. As a result, HB had higher unabsorbed capital allowances to carry forward or back, if available. This is incorrect and also, not tax beneficial as more allowances ends up being forfeited.
- No pro-ration of the amount transferred to AS.
- Almost all Candidates did not claim a deduction of exempt income under the partial tax exemption scheme.

As many Candidates could not correctly work out the tax computation in part (b), they did not conclude that there would be unabsorbed capital allowances and donations remaining in HB. Consequently, some Candidates gave general answers to **part (c)** on the options available to utilise all types of unabsorbed loss items. For those who could correctly determine the type of loss items remaining, they could not explain clearly how the loss items could be utilised. Answers given were confusing and erroneous as many Candidates continued to apply enhanced carry back provisions when this is no longer available from YA 2022 onwards.

A significant number of Candidates scored zero for the three question parts.